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## Globalization, Workers, and Industrial Relations Institutions in Southeast Asia

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## Globalization, Workers, and Industrial Relations Institutions in Southeast Asia

### Abstract

[Excerpt] Much of my research focuses on industrial relations (the relationship between managers and labor - mostly represented by trade unions). Thus, typically I study the impact of changes in the environment (be it economic, social, political, or legal environments) on the goals and strategies of employers and workers. In writing this article, I am using a particular case to provide readers with a flavor of the research that I conduct.

Currently, there is much interest in how globalization (change in the economic environments) is affecting Southeast Asia. On this note, I'd like to briefly examine how the Asian financial crisis (arguably deepened by the integration of financial markets globally) has affected workers in selected Southeast Asian countries (Singapore, Malaysia, Thailand, and the Philippines). I will also attempt to explain why workers in some of these countries fared better than workers in others.

### Keywords

industrial relations, globalizations, Southeast Asia, worker rights

### Disciplines

International and Comparative Labor Relations | Unions

### Comments

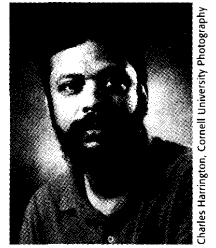
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# Globalization, Workers, and Industrial Relations Institutions in Southeast Asia



Charles Harrington, Cornell University Photography

Much of my research focuses on industrial relations (the relationship between managers and labor—mostly represented by trade unions). Thus, typically I study the impact of changes in the environment (be it economic, social, political, or legal environments) on the goals and strategies of employers and workers. In writing this article, I am using a particular case to provide readers with a flavor of the research that I conduct.

Currently, there is much interest in how globalization (change in the economic environments) is affecting Southeast Asia. On this note, I'd like to briefly examine how the Asian financial crisis (arguably deepened by the integration of financial markets globally) has affected workers in selected Southeast Asian countries (Singapore, Malaysia, Thailand, and the Philippines). I will also attempt to explain why workers in some of these countries fared better than workers in others.

Much has been written about the causes of the Asian financial crisis and I will not revisit that here. Briefly, as a result of the financial and currency crises, and the austerity measures recommended by the IMF (International Monetary Fund), significant "real" effects were felt on the Asian economies beginning in late 1997. In terms of a broad measure, negative GDP growth rates were seen across the region in 1998 (in contrast to growth of approximately eight percent a year for the past three decades). While there is general agreement that the crisis is over, given increasing growth rates in all of Asia in 1999, several authors also warn that the recovery, at best, is very fragile. However, the impact of the crisis on workers of all kinds was quite severe.

The predominant short-term industrial relations consequences of the crisis were the loss of jobs and falling wages throughout the region. It should be noted, however, that the effect on unemployment in particular is very difficult to measure: unemployment rates are inherently constructed and "unreal" compared to employment counts. Also, unemployment rates are particularly difficult to evaluate and measure in the developing countries of the region, considering the loss of jobs by migrant workers in other countries and the fact that many people have responded to the crisis by returning to the rural and informal sectors, and are therefore exiting the formal labor force. Measures of unemployment rates in 1998 in the countries most affected by the crisis include 4.9 percent in Malaysia (Mansor et al. 1999), 5.4 percent in Indonesia (Islam et al. 1999), 10.1 percent in the Philippines (Esguerra et al. 1999), and 13.7 percent in Thailand (Mahmood 1999). Notwithstanding the measurement issues, it is thus clear that the crisis turned the abstract possibility of layoffs (abstract given the tremendous growth most of these countries had experienced for the past few decades) into a reality in the region.

In addition to the return of industrial workers back to the rural economy (Wolfensohn 1998), an immediate response to the rise in unemployment has been the repatriation of guest workers, most notably in Thailand and Malaysia. And with unemployment and economic desperation rising, there is evidence of a reversal of the trend toward improved labor standards and working conditions, with desperate workers more willing to take any work that is available, even if conditions are unsafe or undesirable (e.g., *New York Times* 6/15/98). The economic conditions of women in particular have worsened; Atinc and Walton (1998:16) detail some of the impacts of the crisis on women: "Women lose their jobs first, and families pull their daughters out of school before sons . . . when income shortfalls require reductions in food intake, women and girls sometimes face disproportionate cuts. Social organizations also point to a rise in domestic violence and prostitution." The incidence of unprecedented high and unexpected job loss in combination with the historical lack of social safety nets have contributed greatly to the hardships felt by those who have lost their jobs and those who are seeking jobs (Lee 1998).

At the same time that unemployment has been increasing, the extreme currency depreciations have contributed to a situation in which inflation has been rising and real wages have been falling, so that hardships have increased even for those who remain employed. Together, the combination of unemployment and the fall in purchasing power has led to an increase in social unrest (particularly in Indonesia and some parts of Thailand), and an increase in labor disputes and strikes (particularly in Thailand, but more severely in Indonesia). The crisis has made it imperative for employers to take measures to cut costs and improve functional and numerical flexibility. Layoffs are concentrated in the heavily unionized industrial sectors, causing unions to lose strength. And weak unions, left with few alternatives, often turn to the strike when they are unable to collaborate with management.

Where laid-off workers had been represented by unions, the reduction in employment by firms was associated with a deterioration in labor-management relationships. However, union density (the number of workers represented by unions as a percentage of the total number of non agricultural workers) in Asia is low—density figures range between 10 and 18 percent in Singapore and Malaysia, are lower than that in Indonesia and the Philippines, and lowest (2 percent) in Thailand. Given low densities, most of the workers who have lost their jobs are largely those without any union-based protections in the formal sector. In the informal economy, the impact of job loss is difficult to measure, although anecdotal evidence suggests that the numbers are huge.

In labor relations terms, two trends are noteworthy. First, while cutting labor on the one hand (the short-term response to the crisis), firms have also been engaged in restructuring their employment systems to become more productive. In our research of several industries in these nations, we found that firms have used the financial crisis to push through longer-term restructuring strategies that they would not have been able to negotiate with unions prior to the crisis. There was enough evidence in our case studies to suggest that union bargaining power was significantly weaker during the crisis. This longer-term restructuring generally involved changes in work organization and human resource practices (functional flexibility) for the core workers who were not laid off. Second, given the social costs and consequent political impacts of widespread job loss, several countries have tried to create a more tripartite structure in which labor unions and employers are provided with some voice in the government decision-making process.

In Thailand, for example, the ILO (International Labor Organization) has been instrumental in encouraging moves towards tripartism, with some acceptance by workers' and employers' representatives, although unionization rates in Thailand are very low and collective bargaining is not very well developed. In the Philippines the major unions, the government, and the employers have voluntarily signed a tripartite agreement, exhorting employers to use layoffs only as a last resort. The Philippines has also seen the increased use of labor-management councils at each firm (to increase labor-management cooperation and dialog) introduced by employers with government encouragement but with limited union acceptance. The tripartite agreement cannot be enforced however, because it only exhorts but does not require employers to refrain from laying off employees. During 1997, at least 37,000 workers were laid off permanently in the Philippines, and by the first quarter of 1998, another 30,000 had lost their jobs. In Malaysia as well, a similar tripartite agreement was entered into, with firms promising to use layoffs only as a last measure.

In general, at least in Thailand, Malaysia, and the Philippines, the movement toward tripartism has been minimal. Clearly, though, there are advocates for a more deep-seated movement towards tripartism. The ILO in particular argues that "more could surely be done to establish tripartite structures to promote social partnership, the development of social safety nets, and the advancement of basic rights," and that the current crisis has led to a stronger recognition among the social partners of "the need to strengthen systems of industrial relations and to improve channels of democratic participation in economic and social policy choices." At the end of its report on the crisis, the ILO expresses the hope "that a new industrial relations culture is emerging, a culture of dialogue, recognition of and respect for each other's differences, and of a willingness to search for compromises that can strike an acceptable balance between economic considerations and social needs and ultimately maintain social cohesion." (ILO

1998). In my view, however, the crisis has alerted the industrial relations actors to the need for increased labor-management cooperation in general terms. However, it is not clear that sustainable tripartism has taken root in these countries, given its limited history in most of the countries and the temptation to return to previous structures and modes of interaction with the quick economic recovery.

With tripartism on a shaky foundation at best, let's look at the other trend, the movement toward restructuring and functional flexibility by firms, and its impact on workers. In my view, the crisis accelerated pre-existing moves toward increased flexibility in employment relations as well as labor markets in the various countries in the region, within the context of the drive to increase labor productivity. In the Philippines, for example, employers have been more aggressive in workforce reduction and numerical flexibility-enhancing strategies. There is evidence that suggests tremendous increases in contracting-out strategies, in particular in labor-only contracting (where workers are not employed directly but through subcontractors). This is a move away from the traditional employment contract, resulting in an increasingly casual or contract-labor dominated workforce (Kuruvilla, Erickson, Ofreneo, Amante, and Ortiz 1999). Research by several authors has shown that the crisis has spawned a large pool of casual and temporary workers, and many jobs that were once permanent are now being contracted out. In our research in varied Filipino industries, we found jobs that have traditionally been regular (such as accountants) are now being contracted out, in violation of the laws. Filipino law clearly provides that jobs that are permanent in nature and done regularly within an enterprise cannot be contracted out, but employers either ignore the laws or find ways around them. At the time of this writing, I found that fully 35 percent of all manufacturing was subcontracted out to casual labor.

In Malaysia, for example, although 20 percent of workers have lost their jobs, in almost all cases they were foreign workers. Although the figures of the Malaysian government state that 10 percent of its workers are foreign, more realistic estimates suggest that a fifth to a quarter of the workforce is comprised of foreign workers. Thus, given the tight labor markets in Malaysia, foreign guest workers acted as the buffer; they lost their jobs so that regular workers could continue. Importantly, foreign workers do not have special protections. Employers were only too willing to sign the tripartite agreement promising to lay off workers only as a last resort, because that agreement governed layoffs only of permanent Malaysian workers. Further, there was a significant emphasis in Malaysia on retraining and skills development as Malaysian firms sought long-term functional flexibility as well. The overall unemployment rate in Malaysia nearly doubled from 2.6 percent in 1996 to 4.9 percent in 1998.

Thus, in both Malaysia and the Philippines, I see the responses of firms to the Asian financial crisis as being a part of their responses to the more general pressures of globalization that are gradually resulting in a regional but also intranational core-periphery distinction in the workforce. That is, while firms cut workers and also pursue functional flexibility

strategies, a few workers are getting the benefits of job security and increased skills training, while a larger number are losing their jobs and ending up in the unprotected nonunion and contract sectors. The distinction between core and periphery is also felt in several other ways, notably in terms of increasing earnings differentials between permanent and temporary workers, between skilled and unskilled workers, and increased inequality in society generally. In both Malaysia and the Philippines, we found significant evidence that the earnings differential between regular and temporary workers (core versus periphery workers) had increased substantially during the crisis.

Singaporean workers have probably emerged relatively unscathed by the crisis. The primary mode of adjustment to the crisis was quite different in Singapore. First, in the 1998 budget, the government made provisions for difficult times ahead. These included tax changes and concessions for companies and individuals to help them ease business costs and enhance disposable income respectively. As economic growth declined further in the second quarter of 1998, the government unveiled in June a \$2-billion off-budget package to boost the economy. The package consisted of three components: cuts in government rents and charges for businesses, an increase in government infrastructure spending, and measures to stabilize the property, financial, and hotel sectors. To minimize job losses, wage moderation and flexibility are an important part of the Singapore government's response to the crisis. Salaries of ministers and top civil servants were frozen for the rest of the year. On 26 May 1998, the National Wages Council (NWC) released its recommendations on wage adjustments for the year. Wage-restraint was emphasized to reflect the economic slowdown. The NWC also highlighted the need to contain non-wage costs (such as rents, utilities, and government fees and charges), monitor productivity growth, and pay greater attention to training and employability. As the economic crisis deepened, the NWC reconvened in September. On November 12, 1998, it recommended a cut in wages of five to eight percent to boost investor confidence and sharpen companies' competitiveness. Further, to provide relief to companies, the industrial relations actors—employers, labor, and the government—chose to provide this financial relief through cutting the employers' contribution to the CPF (the state-mandated retirement system), which was a significant way of reducing payroll costs by ten to fifteen percent.

These measures were clearly designed to provide relief for employers so that they would not begin mass retrenchments. To say that there were no retrenchments, however, would be a stretch. At least 20,000 workers were retrenched in Singapore. Yet, the job loss was not as critical in Singapore, given the nation's well-established skills development and retraining systems. Further, in May 1998, the government committed fifty million dollars to re-skill 20,000 workers, including those retrenched under the Skills Redevelopment Program (SRP). Significantly, in Singapore, there was relatively little change in the earnings differentials of skilled versus unskilled or core versus periphery workers. During the financial

crisis, the unemployment rate went up from 1.8 percent in 1997 to 2.2 percent in 1998.

The differences during the financial crisis in the fortunes of Singaporean workers versus workers in the Philippines and Malaysia are instructive. In both Malaysia and the Philippines, there was relatively little effort to protect workers from layoffs. Although there were tripartite agreements, those agreements only exhorted employers to refrain from layoffs. The consequences of job loss have been quite extreme in the Philippines and Malaysia (although less so in Malaysia). In Singapore, however, the response of the government was far more equitable. There was an effort to find solutions that provided incentives for firms not to lay off workers. A number of different policies were brought to bear to keep employment high. And even when job loss was inevitable, there were skills-development institutions to help with the adjustments.

Of course, there are many reasons why Singapore was both less affected by the crisis and more responsive to it. However, the salience of labor's welfare in Singapore's response to the financial crisis is noteworthy and quite different from the response in Malaysia and the Philippines. The differences between the industrial relations institutions of Singapore on the one hand, and those of Malaysia and the Philippines on the other, helps explain why workers fared comparatively better in Singapore than in the other two countries.

Singapore has had a tripartite system of industrial relations since the 1960s, in which representatives of government, representatives of employers, and representatives of trade unions jointly take decisions on a number of issues in the economy and society. Many government agencies are governed on a tripartite basis, including the pension administration and the national council that makes wage recommendations. Tripartism was seen in the 1960s as a means to introduce some stability in industrial relations by providing employers as well as employees a voice in national decision-making. Over the years, tripartism has become more deeply rooted in Singapore, as each new government institution, such as the recent skills development system, have been governed in a tripartite manner. This has ensured labor's participation in many national decisions as well as enabled the three actors to make decisions that reflect all of their interests. And it has enabled the three actors to respond flexibly to crises. An interesting example in the past concerns the use of the industrial relations institutions as a lever in attracting higher-quality investment. In the late 1970s, it was becoming quite clear that Singapore's future as a low cost investment site was threatened. The need was to become a more higher-cost-higher-skill economy, and to attract higher-quality investment. The tripartite national wages council raised wages by more than 10 percent for three years, successfully driving the low cost-investors out of Singapore, while the government tinkered with both the investment incentives and the

education system to attract higher-quality investors. Similarly, in their response to the Asian financial crisis, it was clear that the tripartite system reflected labor's interests to a considerable extent.

In both Malaysia and the Philippines, in contrast, there has been no real tripartism. Their industrial relations systems are not organized based on the tripartite framework, and consequently, labor has little voice in any national decisions. Several authors suggest that in Malaysia there has been some suppression of the labor movement. For instance, unions were banned in the export-oriented electronics sector (Malaysia's most important sector in terms of employment and exports) until 1988. The government has resisted efforts by big union federations to merge to create a single national federation of workers. The effort of the Malaysian government has been to ensure that labor has a voice only at the level of the firm (by suggesting that all new unions be enterprise-based), and even here there are some restrictions; for example, unions in the electronics industry cannot be affiliated to national union federations, although unions in other industries can be. Coupled with restrictions on bargaining (unions are not allowed to bargain over transfers, promotions, job assignments, and layoffs—issues that unions the world over routinely bargain about), it is clear that the voice of trade unions in decision-making at the local level itself is highly constrained, and completely absent at the national level. (Singapore has similar rules about the subjects of bargaining, but the relative absence of a local voice is counteracted by the large voice unions have in national terms.)

In the Philippines, after Marcos there was relatively little formal repression of unions. But unions have little voice both nationally and locally in the Philippines for a number of other reasons. For one, the labor movement in the Philippines is extremely fragmented. There are more than one hundred fifty national federations of labor (compared to one in Singapore and two in Malaysia) with about eight thousand unions affiliated to them. Although these eight thousand unions claim to represent about three million members, in reality only sixty thousand workers are actually covered by collective bargaining agreements. The process of union formation in the Philippines is based on the U.S. system of elections, but given the many competing unions, often the result is that no single union wins the representation elections. Further, employers in the Philippines (we studied several U.S. employers in the electronics industry) are quite firmly and openly anti-union, which inhibits union activity. (The laws are not strong enough to completely ban anti-union strategies of employers.) Further, labor's only mechanism to wield influence at the national level is through politics. However, given the division in the house of labor, there is no unified labor bloc or vote that can be used to pressure politicians to enact labor-friendly

legislation. In the last election, every candidate supported by the dominant labor federation lost!

Thus, the point I want to make is that countries with industrial relations institutions that permit a significant labor voice tend to make decisions keeping the welfare of labor in mind to a greater extent than countries that do not have strong industrial relations institutions. While this is not a new observation (there is a large body of literature on corporatist and tripartite systems in Europe) it has very important implications in Asia in the new global economy. Asian nations are characterized by much lower densities of unionization than their European and even their U.S. counterparts. They are still developing, and are facing, with globalization, the prospect of a divided workforce (the core-periphery distinction), with larger numbers of workers in the periphery and in the informal sector. Absent other policy initiatives, strengthening industrial relations institutions is the only hope for worker protection in these nations.

- 1 The overall impact on women's employment levels is difficult to gauge, given that women are often disproportionately targeted for layoff (Atinc and Walitin 1999) and the (difficult to measure) increase in home-based work resulting from the crisis (Severino 1999).

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